



Office of the City Manager

INFORMATION ITEM

March 27, 2018

To: Honorable Mayor and Members of the City Council

From: Dee Williams-Ridley, City Manager

Submitted by: Teresa Berkeley-Simmons, Budget Manager

Subject: FY 2018 Mid-Year Budget Update

INTRODUCTION

This report presents the FY 2018 Mid-Year Budget Update and focuses on projected General Fund revenues and expenditures. This report also provides information on expenditure projections for the City's special funds.

CURRENT SITUATION AND ITS EFFECTS

The City of Berkeley is currently in FY 2018, the first of two fiscal years in the FY 2018 & FY 2019 biennial budget cycle, which Council adopted on June 27, 2017.<sup>1</sup> Fiscal Year 2018 runs from July 1, 2017 through June 30, 2018. Fiscal Year 2019 runs from July 1, 2018 through June 30, 2019.

As of December 31, 2017, both the General Fund revenues and the General Fund expenditures were on track and within budget.

	Adjusted Budget	FY 2018 Mid-Year Actuals	% Received/ Expensed and Encumbered
Revenues	\$172.9	\$88.3	51%
Expenditures	(\$195.0)	(\$99.5)	51%
Carryover and Excess Equity (Revenues)	\$ 22.1		
Balance	\$ 0		

The carryover and excess equity revenues are carried forward from FY 2017. Additional information on the carryovers and excess equity allocation is discussed later in this report under the General Fund Expenditures section.

<sup>1</sup> [https://www.cityofberkeley.info/Clerk/City\\_Council/2017/06\\_June/City\\_Council\\_06-27-2017\\_-\\_Regular\\_Meeting\\_Agenda.aspx](https://www.cityofberkeley.info/Clerk/City_Council/2017/06_June/City_Council_06-27-2017_-_Regular_Meeting_Agenda.aspx) (Item #47)

## FY 2018 Mid-Year Summary

On November 28, 2017, Council was provided the [FY 2017 Year-End Results and FY 2018 First Quarter Budget Update](#) report. At the time, both the General Fund revenues and the General Fund expenditures were tracking within budget.

### General Fund Revenues

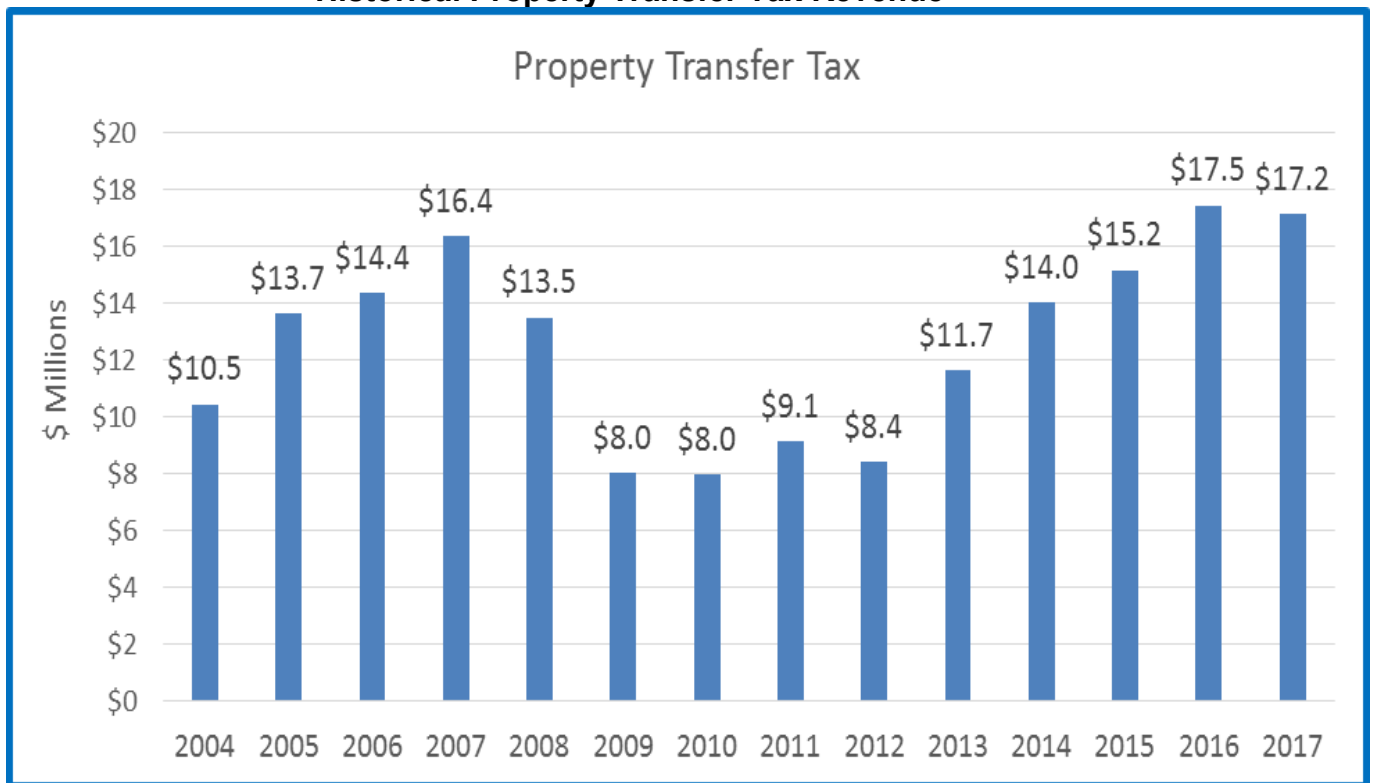
During the first half of FY 2018, the General Fund revenues and transfers increased 4.03 percent from \$84,905,788 in FY 2017 to \$88,326,603 in FY 2018.

Revenue Categories	FY 2018				FY 2017				Comparison FY 18 vs FY 17	
	Adopted	Mid-Year	Variance	% Received	Adopted	Mid-Year	Variance	% Received	Amount	%
Secured Property	\$50,018,636	\$28,546,920	\$21,471,716	57.07%	\$48,715,854	\$26,352,099	\$22,363,755	54.09%	2,194,821	8.33%
Redemptions -Regular	1,443,800	390,388	1,053,412	27.04%	1,415,490	374,365	1,041,125	26.45%	16,023	4.28%
Supplemental Taxes	1,100,000	719,601	380,399	65.42%	843,422	641,707	201,715	76.08%	77,894	12.14%
Unsecured Property Taxes	2,767,684	2,352,744	414,940	85.01%	2,936,296	2,295,747	640,549	78.19%	56,997	2.48%
Property Transfer Tax	12,500,000	10,773,512	1,726,488	86.19%	10,500,000	10,101,232	398,768	96.20%	672,280	6.66%
Sales Taxes	18,000,000	8,901,161	9,098,839	49.45%	17,801,700	11,687,703	6,113,997	65.65%	(2,786,542)	-23.84%
Soda Taxes	1,721,456	740,611	980,845	43.02%	1,600,000	834,480	765,520	52.16%	(93,869)	-11.25%
Utility Users Taxes	14,282,375	7,130,469	7,151,906	49.92%	14,291,500	6,932,186	7,359,314	48.51%	198,283	2.86%
Transient Occupancy Taxes (TOT)-	7,969,633	4,057,855	3,911,778	50.92%	7,152,440	4,221,321	2,931,119	59.02%	(163,466)	-3.87%
TOT-Short-term rentals	800,000									
Business License Tax(BLT)- Regular	18,451,191	1,637,687	16,813,504	8.88%	16,483,200	747,934	15,735,266	4.54%	889,753	118.96%
BLT-U1	650,000	68,343	581,657	10.51%	-	-	-		68,343	100.00%
BLT-Cannabis-Recreational										
Other Taxes	1,466,381	683,583	782,798	46.62%	1,437,628	686,726	750,902	47.77%	(3,143)	-0.46%
Vehicle In-Lieu Taxes	10,320,402	5,879,550	4,440,852	56.97%	10,269,057	5,470,366	4,798,691	53.27%	409,184	7.48%
Parking Fines-Regular Collections	6,299,322	3,264,087	3,035,235	51.82%	6,817,500	3,093,190	3,724,310	45.37%	170,897	5.52%
Parking Fines-Booting Collections	204,000	115,710	88,290	56.72%	200,000	60,060	139,940	30.03%	55,650	92.66%
Moving Violations	239,770	97,117	142,653	40.50%	235,069	104,233	130,836	44.34%	(7,116)	-6.83%
Ambulance Fees	4,823,720	2,113,838	2,709,882	43.82%	4,386,000	2,171,119	2,214,881	49.50%	(57,281)	-2.64%
Interest Income	2,211,000	1,617,767	593,233	73.17%	2,200,000	1,251,964	948,036	56.91%	365,803	29.22%
Franchise Fees	1,955,314	518,412	1,436,902	26.51%	1,826,892	527,742	1,299,150	28.89%	(9,330)	-1.77%
Other Revenue	5,916,158	3,291,181	2,624,977	55.63%	5,558,293	2,497,958	3,060,335	44.94%	793,223	31.75%
IDC Reimbursement	4,553,189	2,827,184	1,726,005	62.09%	4,530,536	2,625,988	1,904,548	57.96%	201,196	7.66%
Transfers	5,197,771	2,598,883	2,598,888	50.00%	4,455,337	2,227,668	2,227,669	50.00%	371,215	16.66%
			-				-		-	
<b>Total Revenue:</b>	<b>\$172,891,802</b>	<b>\$88,326,603</b>	<b>\$84,565,199</b>	<b>51.09%</b>	<b>\$163,656,214</b>	<b>\$84,905,788</b>	<b>\$78,750,426</b>	<b>51.88%</b>	<b>\$3,420,815</b>	<b>4.03%</b>

The information below outlines the variances in key revenue areas.

- Secured property tax increased 8.33 percent compared with the same period in FY 2017. The County reported the FY 2018 assessed value at 7.25 percent.
- Property transfer tax is trending 6.66 percent more than the same period last fiscal year. The number of property transactions increased by 68 or 14.1 percent. However, the average sales price declined by \$187,355 or 8.5 percent. The primary reason for this year’s increase at mid-year is due to one transaction that resulted in property transfer tax of \$750,000. According to Council’s fiscal policy, \$12.5 million is to be included in the General Fund operating baseline. Any excess above \$12.5 million will be transferred to the Capital Improvement Fund. Property transfer tax is trending consistent with FY 2016 and FY 2017 and is anticipated to land around \$17 million by the end of the fiscal year.

### Historical Property Transfer Tax Revenue



- Unfortunately, sales tax is trending about 23.84 percent less than the same period last year. Sales tax revenue totaled \$8,901,161, which is \$2,786,542 or 23.84 percent less than the \$11,687,703 received for the first half of FY 2017. The primary reason for the decrease in sales tax revenue is the termination of the Triple Flip program. In FY 2017 the City received \$2,311,802 from the Triple Flip program. The Triple Flip program ended in FY 2017.

To provide a little background about the State Triple Flip program, in 2004, voters approved [Proposition 57](#), which authorized the State to issue up to \$15 billion in deficit financing bonds (also known as economic recovery bonds, or ERBs). \$11.3 billion of these bonds were issued in 2004 and an additional \$3.3 billion were issued in 2008. Proceeds from these bonds were used to address the state's budget shortfall. To repay the ERBs, the state pledged one-quarter cent of the local Bradley-Burns sales tax. In particular, it reduced by one-quarter cent the Bradley-Burns sales tax, which cities and counties use for general and transportation purposes, and replaced it with a one-quarter cent state special fund sales tax for repayment of the bonds. To hold local governments harmless, the state initiated a complex series of revenue exchanges commonly referred to as the "triple flip".

- Business license taxes increased 119 percent in the first half of FY 2018 to \$1,637,687 from \$747,934 for the same period in FY 2017. This increase resulted primarily from (1) the receipt of \$402,591 in non-profit Business License Taxes in the first and second quarter of FY 2018<sup>2</sup>; and (2) some late receipts from Cannabis operators.
- Vehicle in-lieu taxes increased 7.5 percent in the first half of FY 2018 to \$5,879,550 from \$5,470,366 for the same period in FY 2017. This is consistent with the 7.25 percent increase in FY 2018 assessed values reported by the County.
- Interest income for the first half of FY 2018 totaled \$1,617,767 which is \$365,803 more than the total of \$1,251,964 received for the same period in FY 2017. This is primarily attributable to an increase in long-term investment purchases since the first quarter of FY 2017, as the Federal Reserve began to gradually increase short-term interest rates from a level near zero.

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<sup>2</sup> In FY 2017, non-profit Business License Taxes were not received until May and June.

- Other income totaled \$3,291,181 for the first half of FY 2018, which is 31.75 percent more than the total of \$2,497,958 received for the same period in FY 2017. The increase is primarily due to an increase of \$341,987 in the Ground Emergency Medical Transportation (GEMT) reimbursement program; an increase of \$83,973 in preferential parking fees; an increase of \$109,488 in work for private parties; an increase of \$29,821 in Health & Sanitation fees; and an increase of \$69,701 in City-wide special program.
- Indirect cost reimbursement for the first half of FY 2018 totaled \$2,827,184, which is 7.7 percent more than the \$2,625,988 received for the first half of FY 2017. This is primarily attributable to an increase in charges to the Zero Waste Fund (\$64,372), Sanitary Sewer Fund (\$40,827), and Permit Service Center (\$86,239). Indirect cost reimbursement increases result from increases in the indirect cost allocation base (i.e., total direct salaries and wages in the fund), an increase in the indirect cost rate or both.

### **General Fund Expenditures**

On December 5, 2017, the City Council approved General Fund recommended rollovers, carryovers, and adjustments totaling \$17.6 million in the [Amendment to the FY 2018 Annual Appropriations Ordinance](#)<sup>3</sup> (AAO). The rollovers reflect contractual obligations entered into in FY 2017, which had not been paid as of June 30, 2017. Carryovers are approved by Council for specific purposes that had not be completed by the end of FY 2017. Funding for these commitments is brought forward into the current fiscal year to provide for payment of these obligations. Adjustments are new allocations for projects and Council priorities as detailed in the AAO.

Included in the adjustments are Council authorized \$4.5 million in new appropriations and the re-allocation of \$173,531 from the funds that were previously allocated for relocation of the primary City Council Chamber. Thus, with the additional \$22.1 million tied to the \$17.6 million rollovers, carryovers, and adjustments included in the AAO and the \$4.5 million in additional appropriations the FY 2018 General Fund adjusted budget is \$195.0 million.

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<sup>3</sup> [https://www.cityofberkeley.info/Clerk/City\\_Council/2017/12\\_Dec/City\\_Council\\_12-05-2017\\_-\\_Regular\\_Meeting\\_Agenda.aspx](https://www.cityofberkeley.info/Clerk/City_Council/2017/12_Dec/City_Council_12-05-2017_-_Regular_Meeting_Agenda.aspx) (Item A)

The table below details the funding sources and allocations of the \$4.5 million in new appropriations and the \$173,531 re-allocation adopted by Council on November 28, 2017.<sup>4</sup>

<b>Funding Sources</b>		
<b>Revenue</b>		<b>Amount</b>
Unassigned GF Excess Equity (new appropriation)		\$3,500,000
Measure U1 Revenues (new appropriation)		\$1,000,000
<b>Sub-total (new appropriations)</b>		<b>\$4,500,000</b>
New Council Chamber 1011 University Avenue (reallocation)		\$173,531
<b>Total</b>		<b>\$4,673,531</b>
<b>Expenditures</b>		
<b>Item Title</b>	<b>Source of Revenue</b>	<b>Amount</b>
Pathways Project Operating Costs	General Fund	\$1,900,000
Berkeley Age-Friendly Continuum	General Fund	\$20,000
Berkeley Youth Alternatives After-School Center	General Fund	\$30,000
Berkeley Housing Authority Damage Claim Program	General Fund	\$50,000
Enhanced Public Health Measures	General Fund	\$60,000
Berkeley High School MEET Program	General Fund	\$46,389
Payment to Catastrophic and Stability General Fund Reserves (\$300,000 + \$71,000)	General Fund	\$371,000
UC Theater	General Fund	\$30,000
Berkeley Youth Alternatives	General Fund	\$49,000
Illegal Dumping Clean-up and Efforts to Discourage Illegal Dumping	General Fund	\$100,000
Emergency Winter Shelter and Warming Center Program	General Fund	\$300,000
Funding Gap for Women's and Men's Shelter	General Fund	\$170,000
Downtown Storage Pilot Program	General Fund	\$50,000
Alta Bates Closure Health Impact Assessment	General Fund	\$25,000
Land Use Planning Consultant	General Fund	\$172,142
Police Data Analyst Consultant	General Fund	\$50,000
California/Dwight Traffic Calming	Transportation/Public Works	\$100,000
Cedar/Rose Traffic Calming	Transportation/Public Works	\$100,000
Claremont/Eton RFFB Light	Transportation/Public Works	\$50,000
Small Sites Program (Subject to HAC recommendation)	Measure U1 Revenues	\$1,000,000
<b>Total</b>		<b>\$4,673,531</b>

<sup>4</sup> [https://www.cityofberkeley.info/Clerk/City\\_Council/2017/11\\_Nov/City\\_Council\\_11-28-2017\\_-\\_Regular\\_Meeting\\_Agenda.aspx](https://www.cityofberkeley.info/Clerk/City_Council/2017/11_Nov/City_Council_11-28-2017_-_Regular_Meeting_Agenda.aspx) (Item #23 Supplemental Material)

General Fund expenditures are tracking slightly over budget. This is primarily due to encumbrances that reflect contractual obligations entered into FY 2018 in which payment might not be currently due as good or services might be in progress or not yet complete.

<b>FY 2018 (Mid-Year) GENERAL FUND EXPENDITURES</b>				
<b>Department</b>	<b>FY 2018 Adopted</b>	<b>FY 2018 Adjusted</b>	<b>YTD Actuals + Encumbrances</b>	<b>% Budget Spent</b>
Mayor & Council	2,028,441	2,061,783	861,480	42%
Auditor	2,261,463	2,275,726	931,311	41%
City Manager	5,883,194	7,286,907	2,793,476	38%
Police Review Commission	722,180	724,168	337,863	47%
City Attorney	2,398,356	2,398,356	1,056,578	44%
City Clerk	2,059,366	2,686,201	772,157	29%
Information Technology	5,770,103	7,812,141	3,585,491	46%
Finance	5,756,160	7,396,250	2,558,289	35%
Human Resources	1,977,674	2,719,659	1,170,712	43%
Health, Housing & Community Svcs.	15,049,190	15,111,257	6,861,629	45%
Public Works	3,276,300	4,596,811	2,005,220	44%
Parks, Recreation and Waterfront	5,689,002	6,041,459	3,115,842	52%
Fire	30,984,535	31,629,200	15,370,641	49%
Police	61,378,677	62,596,926	30,498,821	49%
Planning	1,923,055	2,100,241	784,903	37%
Economic Development	2,691,403	2,992,526	1,938,817	65%
Rent Board		493,595	0	0%
Non-Departmental	23,042,703	34,111,122	24,886,595	73%
<b>Total</b>	<b>172,891,802</b>	<b>195,034,328</b>	<b>99,529,825</b>	<b>51%</b>

Additional information of the General Fund revenues and expenditures will be presented in May with the FY 2019 Proposed Budget Update. Final FY 2018 year-end General Fund revenues and expenditures information will be included in the **FY 2018 Year-End Report and FY 2019 First Quarter Update** that will be presented to Council in November 2018.

### Special Funds Expenditures

Special Funds exclude the General Fund and are made up of a number of dedicated revenue funds, enterprise funds, and state and federal grant funds. These funds are collected for a specific purpose; therefore, are not discretionary. While the General Fund may be used to support a Special Fund activity, Special Funds may not be used to support a non-Special Fund activity. The exception being overhead costs charged to the General Fund on behalf of the Special Funds. Overhead costs may be charged back to the Special Funds; however, only costs associated with the specific Special Fund may be incurred and charged to a Special Fund.

Initially, when staff presented the [FY 2018 & FY 2019 Proposed Biennial Budget](#) to Council the General Fund was facing a \$10.3 million deficit<sup>5</sup>. To resolve the projected General Fund deficit the City adopted a 2-year balancing plan that included \$10.3 million in balancing measures through a combination of short term General Fund expenditure reductions and an increase in recurring General Fund revenues. One of the balancing plan strategies adopted by Council was to reduce the General Fund transfers used to subsidize several of the Special Funds.

When Council adopted the FY 2018 & FY 2019 Biennial Budget on June 27, 2017, the FY 2018 adopted budget for Special Funds was \$303.5 million. The Special Funds were augmented by Council on December 19, 2017, with the adoption of the [Amendment to the FY 2018 Annual Appropriation Ordinance](#) (AAO).<sup>6</sup> Included in the amended ordinance adopted by Council are \$71.9 million in rollovers, carryovers, and adjustments. Many of these rollovers, carryovers, and adjustments are tied to grants that support programs and services as well as special funding for capital improvements. Thus, with the additional \$71.9 million, the adjusted budget is now \$375.4 million. A detailed list of the carryovers and adjustments can be found in Attachment 2 of the initial AAO that went to Council on November 28, 2017<sup>7</sup>.

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<sup>5</sup> [https://www.cityofberkeley.info/Clerk/City\\_Council/2017/05\\_May/City\\_Council\\_05-02-2017\\_-\\_Special\\_Meeting\\_Agenda.aspx](https://www.cityofberkeley.info/Clerk/City_Council/2017/05_May/City_Council_05-02-2017_-_Special_Meeting_Agenda.aspx)

<sup>6</sup> [https://www.cityofberkeley.info/Clerk/City\\_Council/2017/12\\_Dec/City\\_Council\\_12-19-2017\\_-\\_Special\\_Meeting\\_Agenda.aspx](https://www.cityofberkeley.info/Clerk/City_Council/2017/12_Dec/City_Council_12-19-2017_-_Special_Meeting_Agenda.aspx) (Item #3)

<sup>7</sup> [https://www.cityofberkeley.info/Clerk/City\\_Council/2017/11\\_Nov/City\\_Council\\_11-28-2017\\_-\\_Regular\\_Meeting\\_Agenda.aspx](https://www.cityofberkeley.info/Clerk/City_Council/2017/11_Nov/City_Council_11-28-2017_-_Regular_Meeting_Agenda.aspx) (Item #2)



<b>FY 2018 (Mid-Year) ALL FUNDS EXPENDITURES</b>				
<b>Department</b>	<b>FY 2018 Adopted</b>	<b>FY 2018 Adjusted</b>	<b>YTD Actual + Encumbrances</b>	<b>% Budget Spent</b>
Mayor & Council				
Auditor	162,800	162,800	54,215	33%
City Manager	754,272	816,470	363,166	44%
Police Review Commission				
City Attorney	1,945,415	3,273,287	1,724,052	53%
City Clerk				
Information Technology	10,521,785	13,186,995	4,709,090	36%
Finance	1,970,933	2,047,937	848,773	41%
Human Resources	1,832,942	1,987,626	850,819	43%
Health, Housing & Community Svcs.	32,306,065	45,699,851	19,474,688	43%
Public Works	147,921,765	180,006,722	94,581,553	53%
Parks and Waterfront	22,582,479	34,794,599	21,854,695	63%
Fire	8,106,773	8,413,728	4,362,287	52%
Police	5,368,327	6,075,555	2,191,834	36%
Planning	16,278,387	19,781,894	9,761,352	49%
Economic Development	2,935,402	4,454,334	2,202,764	49%
Rent Board	5,525,740	5,538,909	2,231,317	40%
Library	20,990,466	21,460,600	9,563,492	45%
Non-Departmental	24,301,217	27,692,339	53,636,659	194%
<b>Total All Other Funds</b>	<b>303,504,768</b>	<b>375,393,646</b>	<b>228,410,756</b>	<b>61%</b>
<b>Total General Fund</b>	<b>172,891,802</b>	<b>195,034,328</b>	<b>99,529,825</b>	<b>51%</b>
<b>Total Citywide Budget</b>	<b>476,396,570</b>	<b>570,427,974</b>	<b>327,940,581</b>	<b>57%</b>

Council adopted the FY 2018 & FY 2019 Biennial Budget in June 2017. Modifications are being made to the FY 2019 Adopted Budget to reflect updated personnel costs such as cost of living adjustments and new benefit rates. Staff in departments are reviewing the impacts of these changes on their department's budgets including the Special Funds.

The table below outlines key Council meeting dates at which budget information will be provided.

<b>FY 2018 Budget Calendar</b>	
<b>Date</b>	<b>Action/Topic</b>
March 27, 2018	<ul style="list-style-type: none"> <li>FY 2018 Mid-Year Update</li> </ul>
May 8, 2018	<ul style="list-style-type: none"> <li>FY 2019 Proposed Budget Update Worksession</li> </ul>
May 15, 2018	<ul style="list-style-type: none"> <li>Public Hearing #1: Budget</li> <li>FY 2018 Annual Appropriations Ordinance Amendment #2</li> <li>Proposed Fee Increases</li> </ul>
May 29, 2018	<ul style="list-style-type: none"> <li>Public Hearing #2: Budget</li> <li>Council recommendations on budget due to the City Manager</li> </ul>
June 12, 2018	<ul style="list-style-type: none"> <li>Council discussion on budget recommendations</li> </ul>
June 26, 2018	<ul style="list-style-type: none"> <li>Adopt FY 2019 Budget Update &amp; Appropriation Ordinance</li> </ul>

### **Next Steps**

Staff will present the FY 2019 Proposed Budget Update on May 8, 2018.

### ENVIRONMENTAL SUSTAINABILITY

Actions included in the budget will be developed and implemented in a manner that is consistent with the City's environmental sustainability goals and requirements.

### CONTACT PERSON

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